A Bourdieusian perspective in exploring the emergence and evolution of the field of Islamic microfinance in Indonesia

Citation for published version:
Handayani, W, Haniffa, R & Hudaib, M 2018, 'A Bourdieusian perspective in exploring the emergence and evolution of the field of Islamic microfinance in Indonesia', *Journal of Islamic Accounting and Business Research*, vol. 9, no. 4, pp. 482-497. https://doi.org/10.1108/JIABR-10-2017-0142

Digital Object Identifier (DOI):
10.1108/JIABR-10-2017-0142

Published In:
Journal of Islamic Accounting and Business Research

A Bourdieusian perspective in exploring the emergence and evolution of the *field* of Islamic microfinance in Indonesia

Abstract

Purpose – Microfinance institutions (MFIs), including Islamic microfinance institutions (IMFIs) in Muslim countries, have spread across the globe and transformed into a new industry. However, how IMFIs in Indonesia evolved to become an important sector serving society have not been rigorously explored. Therefore, this paper addresses the lacuna on the emergence of an industry by examining the development of Islamic microfinance sector in Indonesia.

Design/methodology/approach – The paper adopts the historical research method to narrate the evolution of this specific sector based on data collected through oral history and published academic research documents during various periods of Indonesia's economic and political milieu.

Findings – This paper demonstrates that the emergence and development of Islamic MFIs in Indonesia has been shaped within the wider process of socio-political changes, particularly the role of Islamic movement and politics in Indonesia.

Originality/value – Most studies investigating the emergence and transformation of institution or industry adopt the static approach which has been criticised as it fails to consider the process of emergence, growth path and the survival of organisations. Hence, this paper contributes to the literature by analysing the institutional evolution by locating the institution inside its wider environmental context by using Bourdieu's concept of *field* to narrate the historical development of IMFs from its emergence and evolution to become a significant new industry in the country.

Keywords Islamic microfinance institution, Bourdieu, *field*, Indonesia, *Baitul maal wat Tamwil*,

Paper type Research paper

> *"...Indonesia has been the world's largest laboratory on rural financial market experiments... Valuable lessons have been embedded in the variegated experience of Indonesia's rural financial market, along a rich continuum of shades and shapes" (Gonzales-Vega and Chaves, cited in Steinward, 2001, p.14)*

Introduction

Microfinance refers to the financial intermediation between micro savers, micro borrowers and micro investors (Seibel, 2005). The mechanism of microfinance is to provide small loans to individuals as initial capital to engage in micro-entrepreneurship that would help them to be economically independent (Weiss & Montgomery, 2005). Thus, the root of microfinance is not about money per se but to assist people to achieve their dignity, respect and meaning in their lives, as well as release themselves from the poverty trap (CGAP, 1995). The success story of *Muhammad Yunus* in creating economic and social development through the *Grameen Bank* model of microfinancing (Counts, 2008) has led policy makers to consider microfinance as a potential tool to overcome omnipresent global poverty (Brau *et al.*, 2009; Aigbokhan & Asemota, 2011). As a result, microfinance institutions (MFIs) have spread across the globe and become a new industry (Centre for the Study of Financial Innovation, 2008). It is difficult to obtain an accurate number of MFIs as there is no specific market research data available but the Consultative Group to Assist the Poor (CGAP) which is the global partnership to advance financial inclusion estimated the existence of more than 300 MFIs across the globe with the global volume reaching USD 800 million and serving 1.3 million beneficiaries (Mughal, 2015). By the end of 2013, it was estimated that more than 10,000 MFIs existed globally, serving more than 20 million clients (Etzensperger, 2013), excluding Islamic microfinance institutions (IMFIs) that have emerged in some Muslim countries.

Despite the significant development globally, the evolution of MFIs to become an important industry is a neglected area of research as noted in Scott's paper: "We need better information about the life course of institutions. Although we now have many studies of the emergence of institutions, we have far fewer of the process by which they persist over time…all these studies deal with only one of these phases, either emergence or persistence or deterioration. We need longitudinal studies that capture the entire sequence of institutional building, maintenance and destruction" (cited by Washington, 2004, p. 394). While many studies have been conducted to investigate the emergence and transformation of institution or industry (Rhea, 1996; Worren *et al.*, 1999; Chiles *et al.*, 2004), they adopted a static approach that does not analyse the emergence, growth path and survival of organisations (Krug, 2002). Therefore, there is a need to examine the institutional evolution by locating the institution in question inside its wider environmental context by bringing the concept of *field* as the forefront of institutional analysis (Washington, 2004). This approach emphasizes the active nature of organization's context, thus it requires focus on the particular structures, relations and meaning systems in which an organization operates. As Leblelici *et al.* (1991) noted, the *field* concept traces and interprets the nature and changes within the institutions by incorporating network, culture as well as the historical elements in the analysis.

Bourdieu's concept of *field* has been widely used in management, business and accounting research to understand and analyse the genesis, change, transformation and evolution of institution in various settings (Kay & Laberge, 2002; Battilana, 2006; Bathmaker, 2015; Purde & Howe, 2015). Hence, this paper aims to enhance our understanding of institutional transformation by examining the historical development of IMFIs in Indonesia from its inception during the late 18th century to the contemporary movement post 2000s. By reviewing the history of IMFIs within the wider socio-economic and political circumstances in Indonesia, this study is able to identify the milestone that represents the major changes in the *field* of IMFIs.

The paper proceeds as follows. In the first section, the concept of IMFIs and its development will be briefly discussed to identify the gap within the literature. In the second section, Bourdieu's concept of the *field* is reviewed to understand the genesis and transformation of institutions followed by description of the research method adopted. Section four then discusses the findings of this study and the last section presents the reflection and conclusion.

Islamic microfinance institutions (IMFIs)

IMFIs, like other microfinance institutions, aim to provide financial services in micro-scale to assist poor people who are forsaken by the commercial banks. The main distinction between conventional and IMFIs is that the former is interest-based while the latter is interest-free as the *sharia* prohibits the receiving and giving of any fixed, predetermined rate of return on financial transaction or in other word interest (El-Zoghbi & Tarazi, 2013). Interest is prohibited by all the monotheistic religion (Hossain, 2009) due to its exploitative nature which creates inequality within society (Warde, 2000) as it allows the lender to extract more wealth from vulnerable borrowers who may need to borrow loan to meet their basic consumption requirement. It is also unfair as such practice makes the lender richer and the borrower poorer and the latter also has to bear all the risks in financial transaction. Moreover, interest is also deemed as an inequitable form of transaction as it charges interest on loan for productive purpose while the moral economy of Islam encourages profit and loss sharing that reflects the level of participation between both parties (Mirakhor & Zaidi, 2007).

The establishment of IMFIs was intended to meet the demand of financial services based on *sharia* as it is estimated that about 72% of people living in Muslim-majority countries were reluctant to use financial services due to religious reason (Karim *et al.*, 2008). The establishment of Islamic financial institutions, including IMFIs, is also considered as a broader Islamist agenda to regain Islamic identity by bringing back the Islamic way of life, including business activities (Henry & Wilson, 2004),which has been destroyed by colonialism during the 19th century. Thus, the emergence of such institutions is perceived as one of the indication of a significant development in Muslim society, as noted by Esposito:

> *"The indices of Islam reawakening in personal life are many...This broader-based renewal has also been accompanied by Islam's reassertion in public life, an increasing in Islamically oriented governments, organisations, laws, banks, social welfare services, and educational institutions" (Esposito, 1999, p. 10)*

Unlike the history of Islamic banks, the emergence and development of IMFIs has not been studied extensively. Most studies treated the historical development of IMFIs as part of the development of the Islamic philanthropic institutions of *zakah* (alms) and *waqf* (endowment) that have a long history (Sadeq, 2002) and the establishment of Islamic banks that emerged at the beginning of the 1960s in Egypt (Dusuki, 2008). The first model of IMFIs is The Muslim Fund *Deoband* that was registered as a charitable trust in India in 1961. Despite not fully adhering to the *sharia* principle, it played a significant role in helping the poor to stay away from the moneylenders by providing interest-free loan (Khan & Nisar, 2004). There was no other IMFIs documented until 1986 when the Malaysian government initiated a project to provide interest-free loan without collateral called *Amanah Ikhtiar Malaysia* (Ismail, 2001). Later, the United Nation Development Program assisted in the establishment of microfinance in Yemen and Syria to help refugees of the Gulf War in 1997 and 2000, respectively (Imady & Seibel, 2003). Since then, a number of IMFIs have emerged in the Middle East, South Asia and South East Asia (Allen & Overy, 2009), but there is still limited documentation on the emergence and development of such institutions including in Indonesia.

Bourdieu's concept of the field

The term *field* is a key concept in Bourdieu's theory of practice and it is presented as a "way of relational thinking" for empirical study of various social arena (Kay & Laberge, 2002). Rather than speaking of institutions, groups or organizations, Bourdieu uses *field* in order to "draw attention on the latent pattern of struggles and interest that shape the existence and dynamic of empirical realities" (Swartz, 1997, p. 119). Moreover, the concept of field is used by Bourdieu to broaden possible range of factors that may influence and shape behaviour rather than delimit a precise area of activity (Swartz, 1997).

Field is governed by its own stake and interest and it is built, structured and organized through time (Gomez & Bouty, 2011). *Field* is also considered as a structured space in which the structure is determined by the relational positions held by agents or social actors (Xu & Xu, 2008). Thus, *field* should be seen as a power relation that reveals "the state of the forces between agents or institutions engaged in [the] struggle to dominate" (Bourdieu & Wacquant, 1992, p. 77). This power relation of the *field* is not static, but dynamic due to changes in agent's positions and relations that entails change in the structure of the *field* (Bourdieu, 1990).. The position of agents or social actors within the *field* is determined by the different types of capitals (economic, cultural, social and symbolic), resource and power that are relevant in entering a particular field (Bathmaker, 2015). Therefore, the *field* is simultaneously a space of competition and conflict, within which struggles take place for accumulation of the resources valued in it and the domination of some over others (Bourdieu & Wacquant, 1992).

Bourdieu often uses the metaphor of 'football game' to offer a kind of first intuitive grasp to understand the working of the *field* (Bourdieu & Wacquant, 1992). The *field* is governed by rules in which agent or social actors are the contestants competing to maintain or enhance their position in the *field*. The game is played in the form of a social space that involves negotiation between contestants in the process of positioning among themselves by following the logic of the *field* (Bathmaker, 2015). Thus, the *field* is the "historical constellation that arise, grow, change shape, and sometime wane or perish, over time" (Wacquant, 2007; cited by Bathmaker, 2015, p. 66). This suggest that an analysis of the *field* requires investigating the specific historical and local relational context (Thomson, 2008).

Research method

This paper adopts the historical research method which requires collecting both primary and secondary data (Rowlinson, 2005) to provide the narrative history of the emergence and development of Islamic MFIs in Indonesia over the period. The primary data was obtained via oral history by interviewing key persons who have extensive knowledge and involved in the establishment and development of IMFIs in Indonesia: the chairman of PBMT (*Perhimpunan BMT*/the association of Islamic microfinance institution), the chairman and advisor of ABSINDO (*Asosiasi BMT seluruh Indonesia*/the national association of Islamic microfinance institution), the chairman of PINBUK (*Pusat Inkubasi Bisnis Usaha Kecil*/centre for small business incubation), the chairman of INKOPSYAH (*Induk Koperasi Syariah*/parents of sharia loan and saving cooperative), the chairman of Economic and Entrepreneurship Council of *Muhammadiyah* and staff from the Indonesian Ministry of Cooperative and Small and Medium Enterprise. The secondary data on Indonesia's macro-economic and political situation are derived primarily from the published academic research and serves as data triangulation to confirm and corroborate the interviews as well as fill any gaps in information especially for the period in which interviewees may not have direct knowledge. The interviews, conducted in Indonesian language, were transcribed and translated into English. The translated transcripts and the relevant documents and articles related to Indonesia's socio economic and political circumstances were analysed to trace the historical development of the *field* of Islamic MFIs in Indonesia.

The analysis comprises three steps: 1) identify the timeline of the emergence and development of Islamic MFIs to the present time; 2) identify the major events related to the financial reforms and the socio-economic and political situation in each of the identified period; and 3) identify the milestones of microfinance initiatives and link back to the wider socio-economic and political and the financial reforms of the corresponding periods.

The genesis of the field of IMFIs

The initiative to provide financial services based on Islamic teaching in Indonesia can be traced back to the Dutch period. However, due to the political situation, such institutions vanished during the Japanese occupation and also after Indonesian independence. It was only during the 1980s-1990s that initiatives were undertaken to re-establish such institution.

The Dutch period: the emergence of the first model of IMFIs

According to the chairman of PINBUK, the first model of IMFIs in Indonesia can be traced to the informal organization initiated by *R. Ariawiraatmaja,* the headman of *Purwokerto,* a small district in *Central Java* who collected social funds from mosque congregation. The fund was later utilized as the initial capital in establishing the first indigenous rural bank, *De Purwokertosche Hulp-en Spaarbank der Inlandsche Hoofde* in 1895, to discourage borrowings from the Chinese moneylenders (Steinwand, 2001). The bank went through several name changes during the Dutch and Japanese occupation but after independence, the bank was nationalised and renamed as *Bank Rakyat Indonesia* (BRI). It is considered to be the largest and most successful nationwide rural bank in the world (Robinson, 1992). Around the same time, a Dutch colonial officer in Purwokerto, De Wolff van Westerrode, initiated the formation of cooperative rural bank called *lumbung desa* (village barn) that replicates the model of self-help principle of the Raiffeisen bank in Germany (Steinwand, 2001). Rather than utilising government funds, villagers were required to retain 40% of their *zakah* (Islamic alms) funds to establish *lumbung desa* (Henley, 2007). The main purpose of such institution was to provide short-term loan to rice farmers to be repaid one month after the harvest along with 10% interest (Steinwand, 2001). The village Head, an Islamic cleric and a clerk were appointed to manage the institution. It grew significantly from 300 units in 1900 to 12,000 in 1910 but decreased gradually due to shortage of funds and was finally forced to close in 1934 due to rampant fraud (Steinwand, 2001). There was no evidence of any efforts to re-establish similar institution until a decade later.

Re-establishment of IMFIs (1980- 1990)

The initiative to re-establish IMFIs only started during the period 1980-1990, driven by the liberalisation of the financial sector and Islamic resurgence in Indonesia. The financial reforms started after the collapse of crude oil price in the world market in 1982. Since the petroleum sector contributed about two-thirds of Indonesian revenue, the decline caused a deficit in the country's balance of payment (Hill, 1996) causing it to seek the assistance of the International Monetary Fund/IMF (Omori, 2007). The IMF prescribed for the government to minimise dependence on petroleum revenues and to adopt a market-oriented approach by implementing the financial liberalisation policy (Robinson & Rosser, 1998) which resulted in three financial reforms being undertaken during 1983-1992. The first was enacted in June 1983 to remove the credit ceiling for all banks and permit them to determine their own deposit and lending rates (McLeod, 2007). The goal was to expand and mobilise domestic capital and attract foreign investors to invest in Indonesia (Resosudarmo & Kuncoro, 2006). This policy halted the era of state-bank domination and the government no longer intervenes in determining the lending rate of financial institutions, setting the target sectors to be funded and channelling of credit subsidies to farmers (Lapenu, 2001). The second financial reform took place in October 1988 to remove the barriers in establishing new banks and encouraging the development of rural banking (Robinson, 2002). As a result, state and commercial banks started to expand their branches and broaden their services to rural areas. Privately owned micro bank, *Bank Perkreditan Rakyat (*BPR) or People's Credit Bank, started to emerge (Ismawan, 2006). This financial reform resulted in the burgeoning of rural and micro-banks in Indonesia. The third financial reform in the financial liberation era is marked by the enactment of Act No.7/1992 concerning Banking Law which allows foreign banks to operate in Indonesia, permits banks to offer their stocks to the public and acknowledges the existence of two types of banks: commercial and rural (Chou, 1999).

Despite being the most populous Muslim country in the world, Indonesian constitution does not follow the *Shariah* due to political hostility between the government and Islamic separatist movements who attempted to establish an Islamic state but was unsuccessful (Tamara, 1986) during President Sukarno's era. Similarly, since 1967, President Suharto imposed a strict secular policy to curtail the power of Islamic movements in the political arena and limit religious and social activities. However, President Suharto softened his stance by allowing the establishment of *Ikatan Cendekiawan Muslim Indonesia* (ICMI) or Association of Indonesian Muslim Intellectuals in 1990 which was facilitated by Habibie, the Minister of Science and Technology who had a long and close relationship with the President.

ICMI played a significant role in fostering Islam as a way of life in Indonesia during the 1990s. It endorsed the establishment of an Islamic national newspaper, *Republika,* for Islamic propagation and a charity foundation called *Dompet Dhuafa* that later provided financial assistance for establishing IMFIs. The major achievement of ICMI was the support it received from the *Majelis Ulama Indonesia/MUI (*Indonesian Islamic Council) which endorsed the establishment of the first Islamic bank in Indonesia. After a long and intensive lobbying by both ICMI and MUI, President Suharto finally permitted for the formation of the first Islamic bank in Indonesia, provided that the word 'Islam' was dropped. Thus, it became known as *Bank Muamalat Indonesia (*BMI).

The development and growth of IMFIs (1990 to 2000)

Despite being officially established in November 1991, BMI could only operate in May 1992 following the enactment of Act No.7/1992 which recognises the operation of a dual banking system: interest-based and profit-sharing based (Kasri & Kassim, 2009). However, the growth and development of BMI came to a standstill during 1992-1998 due to the lack of technical guidelines on the operational procedure of BMI (Holloh, 2001). Furthermore, interview with the first director of BMI revealed that the high minimum paid-up capital requirement and extensive administrative procedure imposed by the Indonesian Central Bank constrained BMI's expansion to the rural areas. Until 1998, there was only one Islamic bank with 10 branches (Bank Indonesia, 2013) in big cities and urban areas. ICMI then organized discussions to seek solution to meet the demand for Islamic financial services with the capacity to provide the initial capital which reached an agreement to re-establish *Baitul Maal wat Tamwil (*BMT), a generic name for IMFIs in Indonesia (Seibel & Agung, 2005).[1]

The idea of BMT may be attributed to a group of young Islamic activists[2] in Bandung Institute of Technology who undertook a trial project in establishing financial services based on *sharia* principles called *Baitul Tamwil Teknosa* in 1984 (Choiruzzad & Nugroho, 2013). To disseminate knowledge on the practice of *sharia* in business, *Teknosa* offered basic training to many university students across Java. Despite *Teknosa* being disband,[3] the spirit to apply *sharia* in business as practiced by *Teknosa* had imbued the

[1] This paper uses the term IMFIs and BMT interchangeably.
[2] These activists later occupied central positions in the bureaucracy and they established ICMI.
[3] There was no document on when and why *Teknosa* was dissolved.

alumni who had received the training from *Teknosa* to later establish similar institutions. As the manager of one BMT shared his experience:

> *"I was really impressed with Teknosa. It inspired me to apply Islamic values in real life –actually doing so was only a dream, until 10 years later when I was trusted to manage a small fund, and I started to operate financial institution based on sharia."*

Other documents mentioned that a few years after the disband of *Teknosa*, a similar institution called *Ridha Gusti* emerged in Jakarta (Perhimpunan BMT Indonesia, 2012), but there is no literature documenting the history of its establishment and why it ended. In 1992, Zainal Muttaqien, a young Islamic activist founded *Bina Insan Kamil (Development of Ideal Man)* to help people stay away from moneylenders by using the fund from *Baitul Maal* (house of treasure) (Antonio, 2008). Since the fund was raised from the social fund, the sustainability of their operation was at stake. Hence, Aries Muftie, a young banker and Islamic activist proposed combining the concepts of *Baitul Maal* with *Baitul Tamwil* (house of expense), thus became known as *Baitul Maal wat Tamwil or* BMT. By having commercial activities, such organisations are able to generate profit to re-finance their activities. Supported by intensive Islamic propagations by the founders, *Bina Insan Kamil* grew significantly.

To bolster the growth of BMT, ICMI initiated *Pusat Inkubasi Bisnis Usaha Kecil*/PINBUK- the centre for small business incubation. The aim of PINBUK was to introduce Islamic financial institution by encouraging the establishment of BMTs through the ICMI's network that exists throughout Indonesia. The chairman of PINBUK confirmed:

> *"As an organisation initiated by ICMI – a privileged organisation during Suharto's era – it was not surprising that PINBUK obtained full support from the government, including funding. With the support from ICMI's network throughout Indonesia, PINBUK offices could be found at both the national and provincial levels."*

The full support by the government and the attendance by President Suharto to the inauguration ceremony of the movement for the establishment of BMTs in 1995 (Holloh, 2001) contributed to the exceptional growth of BMT as can be seen in Table 1.

Table 1 The number of BMTs 1990-2003

No.	Phase	Period	Number of IIMFIs	Growth rate
1	Initial growth	1990–1995	300	-
2	Rapid growth promoted by PINBUK	1996	700	133%
		1997	1,501	114%
		June 1998	2,470	65%
3	Slowing down of growth	2000	2,938	19%
4	Stagnation and decline	2003	2,856	-2%

Source: Seibel (2004, p. 6)

The rapid growth of BMT is also related to the efforts of institutions such as the *Dompet Dhuafa* Foundation that collects *zakah* and distribute it as scholarships to students and also funding productive activities (Sakai, 2008). It also launched a program to establish 1001 BMT and during the period 1993-2008, it was reported that they managed to established more than 500 BMT (Choiruzzad & Nugroho, 2013). Another institution that contributes to the rapid growth of BMT is *Muhammadiyah*, the second largest Islamic mass organisation with more than 30 million followers, that actively encourages their members to establish *Baitul Tamwil Muhammadiyah*/BTM in their area. Besides these institutions, hundreds of BMTs were also established by individuals (Perhimpunan BMT Indonesia, 2012). According to Perhimpunan BMT Indonesia, it is estimated that more than 4,000 BMT exists in Indonesia, forming an integral part of the Islamic financial institution landscape in Indonesia.

Post 2000: the contemporary movement of IMFIs

The term “movement” refers to a collective action in a society that focuses on specific social or political issue (Porta & Diani, 2006). This study identified a number of IMFIs movements responsible for the institutionalisation of microfinancing in Indonesia.

Driven by similar problems, particularly lack of fund and support from the government, a number of BMTs initiated *Induk Koperasi Syariah*/ INKOPSYAH – a secondary cooperative at the national level with the aim to provide savings and loans for their members. Its role later shifted to become the liquidity provider for members that experienced fund deficits. By the end of 2012, its membership is estimated to be 385 spread throughout Indonesia (INKOPSYAH BMT, 2011).

The second movement occurred at the beginning of 2000 when the government enacted Act No. 23/1999 which abolish the role of the Central Bank as the agent of development and to focus on monetary affairs. As a result, the BMTs that previously operate under the *Proyek Hubungan Bank dan Kerjasama Masyarakat*/PHBK – projects linking bank and self-help group, loss their legal status. The existing BMTs were forced to change their legal status to cooperatives. During this period, a number of BMTs voluntarily transformed their legal status to cooperatives while other groups persisted in defending their status quo. The latter, mainly from the fundamentalists Islamic groups, argued that BMTs should have their own legal status that differs from cooperatives. Since the existing legal structure could not accommodate the ideal legal status expected by BMTs, those BMTs that maintained their status quo were forced to close their office as they were considered as illegal institutions and not allowed to mobilise and distribute funds from society.

> *“Following the abolition of the PHBK project in 1999, BMT suffered from their legal status and accusations of them being illegal institutions. Moreover, their staffs were accused of embezzlement. As a result, many BMTs had to cease operations due to either fear of opening their offices or a lack of staff available to continue the operations.”*

On the other hand, BMTs with cooperative legal status also faced problems mainly due to liquidity and shortage of funds arising from loss of public trust following the closures of many BMTs. Moreover, BMTs do not have access to financial market in order to increase their capital.

The third movement began by raising awareness among BMTs on the importance of peer support and mutual help. Therefore, a number of BMTs in the region of Central Java started to establish an association of BMT (Perhimpunan BMT Indonesia, 2012). The benefits gained by members from joining the association at the local level stimulated 12 of the BMTs to further establish the association at the national level in June 2005 called BMT Centre and later changed its name to *Perhimpunan* BMT/PBMT, the association of BMT. The aim of PBMT is to bolster the development of BMTs. In December 2005, another BMT association, namely, *Asosiasi* BMT/ABSINDO was established as a result of the recommendation from 600 participants during the national congress of BMTs to help reinforce and empower BMTs to act as professional financial services providers based on *sharia* principle. There is no obvious difference between PBMT and ABSINDO in term of their aims, mission, programs and operational areas and the membership mechanism for both associations is voluntary-based. As a result, there are some overlapping in activities, memberships and management. By the end of 2012, PBMT claimed to have 206 members while ABSINDO recorded 500 members with many BMTs being members of both organisations. In short, the emergence of BMT associations such as INKOPSYAH, ABSINDO and PBMT may be attributed to the absence of governmental support to the IMFS. Since there was no regulation and supervision provided by the government institution, these associations became the self-regulating organisations for their members (Muftie, 2012).

In enhancing its development, both ABSINDO and PBMT competed in acquiring memberships by offering different types of services to the BMTs. In the case of PBMT, it prepared a blueprint document of BMT 2020 as a policy guidance for its members to accelerate their development (Perhimpunan BMT Indonesia, 2010). It set up different divisions to provide better services for their members such as, PBMT Venture to provide liquidity services, PBMT Travel to facilitate pilgrim services for their members, PBMT Institute for improving skills and capacity of their staff members, PBMT *Taawun* for provision of insurance services and *Baitul Maal* PBMT for collecting and distributing *zakah*. On the other hand, ABSINDO's masterpiece program is the establishment of an apex organisation for BMT that specialises in dealing with the mismatch in liquidity, offering saving guarantees, developing linkage program, facilitating settlement and payment system as well as providing monitoring and evaluation services. The apex is intended to play a similar role as that of the central bank, which would enable them to monitor the financial transactions. Moreover, the apex is also expected to become the deposit insurer that protects the interest of depositors as well as those under the Indonesian Financial Service Authority.

Whilst PBMT and ABSINDO both competed in acquiring members by providing unique services, they worked together in pushing the agenda for the government to accommodate the needs for legal assurance and specific regulations for BMT. As a result, Act No. 1/2013 concerning the Microfinance Act was enacted but it only emphasizes that microfinance institution should determine whether their legal status is that of either a cooperative or a limited company. The fundamental need of BMT for regulation, supervision and the protection of their depositors is still absent. The expectation for the *Otoritas Jasa Keuangan*/OJK/ (Indonesia Financial Authority) to undertake the supervision of BMTs has not been realized and both Act No. 21/2011 concerning the Indonesian financial authority and Act No. 1/2013 concerning the microfinance act do not regulate the supervision of BMT. Therefore, the association of BMT still plays a significant role as a self-regulating institution for their members.

Mapping the position of IMFIs

Indonesia has the greatest diversity of microfinance infrastructure in the world (Seibel, 2004). Mapping the position of IMFIs, as suggested by Bourdieu, among the Islamic financial institution highlights that the *field* does not function in isolation. The *field* of IMFIs is part of the bigger *field* of Islamic financial institution, hence the struggle and competition is not only within the *field*, but also to other related *fields*. The Islamic financial institutions in Indonesia can be classified as being formal, semi-formal and informal (Holloh, 1998). The term formal refers to state, commercial and rural banks that are subjected to the banking regulation and being under the supervision of the Indonesian Financial Authority.

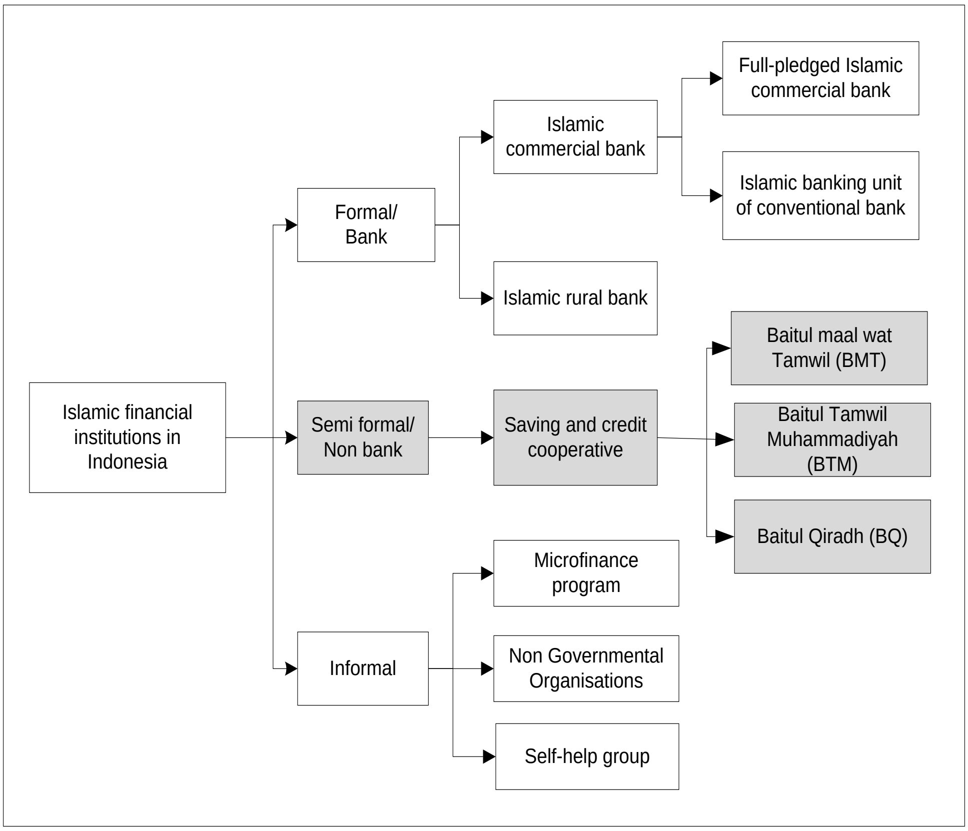
The non-bank or semi-formal institutions are the BMTs. There are three types of IMFIs in this category: *Baitul Maal wat Tamwil* (BMT), *Baitul Tamwil Muhammadiyah* (BTM) and *Baitul Qiradh*, that operates only in Aceh (Holloh, 2001). According to Seibel (2005), about 95% of IMFIs are classified as BMTs having affiliation to the followers of the *Nahdhatul Ulama*/NU, the biggest mass Islamic organisation in Indonesia while the remaining 5% are classified as BTM and are affiliated to the *Muhammadiyah*, the second biggest mass Islamic organisation in Indonesia. NU and Muhammadiyah differs in their interpretation of the concept of *Baitul Maal* (house of treasure) and *Baitul Tamwil* (house of expense). From *Muhammadiyah's* viewpoint, integrating both institutions is inappropriate from the *shariah's* perspective since the motive of IMFIs are purely business. Therefore, *Muhammadiyah* prefers to use the term *Baitul Tamwil* which means business mission for IMFIs. On the other hand, NU argues that it is permissible for the fund from the *Baitul Maal* to be utilised for productive activities such as *qard hasan* (benevolent credit). However, in practice, most BMTs do not utilise *zakah (alms)*, *infaq* or *sadaqa* (charity) as their source of funds to support their activities but instead mobilise savings from society as their source of fund. This is partly attributed to the Indonesian government regulations that allowed only authorised and registered *zakah* institutions to collect *zakah* and distribute it to the needy. For this reason, BMT and BTM are similar in nature, as they both do not rely on *zakah* as their source of funds.

The informal structure refers to financial services provided by organisations or individuals. The term microfinance programs refer to a wide range of projects or activities introduced by different institutions from the Indonesian government, commercial banks, and non-governmental organisations with the aim of empowering the poor through the provision of financial support (Holloh, 1998). Most of this programs run for a certain period, hence the majority of such microfinance is no longer available today. There are also many IMFIs that operate under the legal status of non-governmental organisations and they usually received grants or donations from donors in delivering their activities. The last group is the self-help group that still exist until today as they are reluctant to transform into formal institutions such as cooperatives or limited companies and the government did not force them to do so. The mapping position of IMFIs is illustrated in Figure 1.

Reflection and conclusion

The analysis of this study presents the findings on how the organisation emerges, grows and transforms into an industry based on the case of Islamic microfinance sector in Indonesia. This paper argues that the *field* of IMFIs is a dynamic space inseparable from the socio-economic and political situation during the different phases of its development. It has been influenced primarily by the financial reforms and the Islamic resurgence movement during 1980-1990. In analysing the *field* concept as suggested by Bourdieu, this paper identifies the major events that stimulate the changes in the *field* of IMFIs and the findings were discussed based on four periods, beginning with the period under Dutch colonialism which saw the first initiative being undertaken in providing financial services based on Islamic teaching, followed by the period between 1980-1990s during which the concept of IMFIs began to re-emerged, the period 1990-2000 which marked the rapid growth of IMFIs and the period post 2000 which presents the collective mobilisation that can be considered as IMFI's movements. During each period, the socio-economic and political situation that shaped the changes in the financial sector is first discussed followed by the milestones achieved by the various initiatives. By doing so, the discussion of findings presents the empirical dynamics of the *field* of IMFS over time. The periodical development of IMFS is illustrated in Figure 2.

Figure 1 The position of IMFIs within the *field* of Islamic financial institutions in Indonesia



The initiative to provide financial services based on Islamic teaching in Indonesia has a long history and can be traced back to the Dutch period when *R. Aria Wiraatmaja* utilised the mosque social fund, known as *Baitul Maal* to establish an informal institution to help the villagers stay away from the Chinese moneylenders. This institution was later transformed to Bank Rakyat Indonesia, the flagship of microfinance institutions in Indonesia. Other initiatives include the one proposed by the Dutch official, *De Wolff van Westerrode*, which established the self-help cooperative called *lumbung desa* with the initial capital being from the *zakah* fund contributed by villagers. Such institutions were forced to close in 1934 due to rampant internal fraud. Since then, there was no literature documenting the efforts to establish similar institution until a decade later during 1980-1990. The efforts to re-establish Islamic financial institution was driven by the financial reform that enabled new banks to be established and also the Islamic resurgence movement that tried to bring Islam as a way of life, including business activities. The growth and development of IMFIs during 1990-2000 were facilitated by a number of institutions, primarily the PINBUK, *Dompet Dhuafa* and *Muhammadiyah*. Since then, IMFIs grew significantly in terms of number of offices, clients they can afford to serve as well as assets they have accumulated.

The findings substantiate the game metaphor of the *field* as the sphere of play that informs the players the specific rules and regulation on how to play the game (Thomson, 2008). Islamic microfinance is a distinctive *field* with specific rules of which the most prominent is that the operation of IMFIs must be based on *shariah's* principle. The findings also support Bourdieu's suggestion on the property of the *field* as the "area of production, endowed with its own logic and its own history" (Bourdieu, 1977).

The discussion in the period post 2000 examines the contemporary movement of IMFIs. Driven by the general problems they encountered, primarily the shortage of liquidity, a number of IMFIs cooperate in establishing associations that play a significant role as the self-regulation institution for its members in the absence of governmental supervision and support for this *field*.

Figure 2 The periodization of the development of IMFIs in Indonesia

	The embryo of financial services based on Islamic teaching	Initiative for Islamic financial institutions	The emergence and growth period of Islamic microfinance institutions	The collective movement period
Period	The Dutch period	Post 1980 - 1990	Post 1990 - 2000	Post 2000 - present
Socio-economic and political situation	• Economic condition was deteriorated after a long period of exploitation • 1901 : The Dutch started to implement ethical policy toward Indonesia	• 1980s-1990 : the Islamic resurgence : • 1990 : The establishment of ICMI • 1988 : The iberalisation financial sector through *Paket Oktober* (October Package)	• 1991 : the establishment of the first Islamic Bank in Indonesia, Bank Muamalat Indonesia • 1992 : Banking Law 7/1992 → recognized profit-sharing system • 1992 :Bank Muamalat Indonesia operated formally • 1997-1998 : financial crisis and banking collapse • 1998 : Banking Law10/1998 → dual banking system • 1999 : Central Bank Law 23/ 1999 → Islamic bank under the Central Bank supervision	• 2011 : the enactment of the Act 21/2011 concerning the Financial Service Authority • 2012 : the enactment of the Act 17/2012 concerning the Cooperative • 2013 : the enactment of the Act 1/2013 concerning microfinance institutions
Milestones of rural microfinance	• 1895 : The establishment of the first indigenous and rural bank funded by Baitul Maal • 1903 : the Dutch government established Volksbank (People Bank) • 1900 : De Wolff initiated to establish cooperative rural bank (lumbung desa = village barn)	• By end of 1980s : a pilot project of Islamic microfinance was practiced by youth Muslim in campus ITB, Bandung • 1988 : the permission of private sector to enter the rural bank sector • 1989 : the inception of linkage program (PHBK – link between bank and self-help group)	• 1994 and 1995 : the set up of centre for development of small business → played significant role in establishing IMFs across the country • 1996-1998 : the rapid growth of IMFIs • 1999 : the end of linkage program → IIMFIs lost its legal status	• 2000-2005 : the transformation of legal status of IMFIs into co-operative • 2004 : the provision for the co-operative of Islamic financial service • 2005 : the establishment of IIMFIs associations

The existing associations of INKOPSYAH, ABSINDO and PBMT also at the same time compete in acquiring memberships by offering different services to their members. Moreover, mapping the position of IMFIs within the Islamic financial sector also demonstrates that the *field* is simultaneously a space of competition, conflict and struggle (Bourdieu & Wacquant, 1992). These conflict, struggle and competition do not only take place within the *field*, but also from outside the *field*. The competition within the *field* takes place between the three existing associations and between the players in the *field* comprising the individual IMFIs. The struggle outside the *field* is attributed to the individual IMFIs having to compete with various institutions in providing their financial services, ranging from banks, people credit banks and other informal forms of IMFIs.

To conclude, while other studies adopted a static approach in investigating the emergence and development of institutions (Krug, 2002), this paper adopted Bourdieu's concept of *field* to locate the institution within its wider environmental context. By considering the socio-economic and political situation in Indonesia, this study contributes in presenting a longitudinal study that captures the entire sequence of the emergence of an institution that successfully transformed into an important industry (Washington, 2004).

References

Aigbokhan, Ben E., & Asemota, Abel E. (2011). An assessment of microfinance as a tool for poverty reduction and social capital formation : evidence on Nigeria. *Global Journal of finance and banking issues, 5*(5), 38-48.

Allen, & Overy. (2009). Islamic microfinance report: International Development Law Organisation.

Antonio, Muhammad Syafii. (2008). Islamic microfinance initiatives to enhance small and medium-sized enterprises. In G. F. S. White (Ed.), *Expressing Islam : Religious Life and Politics in Indonesia*. Singapore: ISEAS Publishing - Institute of Southeast Asian Studies.

Bank Indonesia. (2013). Statistik perbankan Indonesia - Indonesian banking statistics (Vol. 11). Jakarta.

Bathmaker, Ann-Marie. (2015). Thinking with Bourdieu : thinking after Bourdieu. Using 'field' to consider in/equalities in the changing field of English higher education. *Cambridge Journal of Education, 45*(1), 61-80.

Battilana, Julie. (2006). Agency and institutions : the enabling role of individual's social position. *Organization, 13*(5), 653-676.

Bourdieu, Pierre. (1977). *Outline of a theory of practice*. Cambridge: Cambridge University Press.

Bourdieu, Pierre. (1990). *The logic of practice*. California: Stanford University Press.

Bourdieu, Pierre. (1991). *Language and symbolic power*. Cambridge: Polity Press.

Bourdieu, Pierre, & Wacquant, Loïc J.D. (1992). *An invitation to reflexive sociology*. Cambridge: Polity Press.

Brau, James C., Hiatt, Shon, & Woodworth, Warner. (2009). Evaluating impacts of microfinance using Guatemalan data. *Managerial finance, 35*(12), 953-974.

Centre for the Study of Financial Innovation. (2008). Microfinance banana skins 2008 : risk in a booming industry. New York: Centre for the Study of Financial Innovation.

CGAP. (1995). Small and microenterprise finance: guiding principles for selecting and supporting intermediaries. Retrieved 17th February, 2012, from http://www.gdrc.org/icm/ppp/ppp-5.html

Chiles, Todd H., Meyer, Alan D., & Hench, Thomas H. (2004). Organizational emergence : the origin and transformation of Branson, Missouri's musical theatres. *Organization Science, 15/5*(September-October), 499-519.

Choiruzzad, Shofwan Al Banna, & Nugroho, Bhakti Eko. (2013). Indonesia's Islamic economy project and the Islamic scholars. *Procedia Environmental Sciences, 17*, 957-966.

Chou, Catherine. (1999). Indonesian banks : survival of the fittest *Rising to the challenges in Asia : a study of financial market, Indonesia* (Vol. 6, pp. 35-72): Asian Development Bank.

Counts, Alex. (2008). *Small loans, big dreams. How Nobel Prize Winner Muhammad Yunus and microfinance are changing the world*. New Jersey: John Wiley and Sons, Inc.

Dusuki, Asyraf Wajdi. (2008). Banking for the poor : the role of Islamic banking in microfinance initiatives. *Humanomics, 24*(1), 49-66.

El-Zoghbi, Mayada, & Tarazi, Michael. (2013). Trends in sharia-compliant financial inclusion *Focus Note* (Vol. 84). Washington: CGAP.

Emirbayer, Mustafa, & Johson, Victoria. (2008). Bourdieu and organizational analysis. *Theory Sociology, 37*(1), 1-44.

Erickson, Bonnie H. (1996). Culture, class and connection. *American Journal of Sociology, 102*(1), 217-251.

Esposito, John L. (1999). *Islamic threat : myth or reality? Third edition*. Oxford: Oxford University Press.

Esposito, John L. (2008). Introduction : Islam in Asia in the Twenty-First Century. In J. L. E. J. O. V. O. Bakar (Ed.), *Asian Islam in 21st Century* (pp. 3-8). Oxford: Oxford University Press.

Etzensperger, Christian. (2013). Microfinance market outlook 2014 : no 'sudden stop' : demand for microfinance soars. Zurich: ResponsAbility Investment AG.

Gomez, Marie-Léandre, & Bouty, Isabelle. (2011). The emergence of an influential practice : food for thought. *Organization Studies, 32*(7), 921-940.

Henley, David. (2007). Custom and koperasi : the cooperative ideal in Indonesia. In J. S. Davidson & D. Henley (Eds.), *The revival of tradition in Indonesia politics : the deployment of adat from colonialism to indigenism* (pp. 87-112). Oxon: Routledge Contemporary Southeast Asia Series.

Henry, Clement M., & Wilson, Rodney. (2004). Introduction. In C. M. Henry & R. Wilson (Eds.), *The politics of Islamic finance* (pp. 1-15). Edinburgh: Edinburgh University Press Ltd.

Hill, Hal. (1996). Indonesia's industrial policy and performance : "orthodoxy" vindicated. *Economic Development and Cultural Change, 45*(1), 147-174.

Holloh, Detlev. (1998). *Microfinance in Indonesia : between state, market and self-organisation* (Vol. Vol. 4). Hamburg: Lit Verlag.

Holloh, Detlev. (2001). ProFI microfinance institutions study. Denpasar: Promotion of Small Financial Instiutions.

Hossain, Mohammad Zakir. (2009). Why is interest prohihibited in Islam? A statistical justification. *Humanomics, 25*(4), 241-253.

Imady, Omar, & Seibel, Hans Dieter. (2003). Sanduq : a microfinance innovation in Jabal al-Hoss, Syria. *Nenaraca Newsletter,* 1-12.

INKOPSYAH BMT. (2011). Anggota. Retrieved 5th November, 2011, from http://www.inkopsyahbmt.co.id/index.php?option=com_content&view=article&id=97&Itemid=573

Ismail, Rahmah. (2001). Economic and social impact of Amanah Ikhtiar Malaysia (AIM) scheme : a case study in Kedah and Trengganu. *Humanomics, 17*(1/2), 141-155.

Ismawan, Bambang. (2006). *Managing the growth of microfinance program : human resource management including recruiting, trainin and motivating staff*. Indonesian Movement for Microfinance Development.

Karim, Nimrah, Tarazi, Michael, & Reille, Xavier. (2008). *Islamic microfinance : an emerging market niche* Vol. 49. Retrieved from http://www.cgap.org/gm/document-1.9.5029/FN49.pdf

Kasri, Rahmatina A., & Kassim, Salina Hj. (2009). Empirical determinants of saving in the Islamic banks : evidence from Indonesia. *JKAU : Islamic Econ, 22*(2), 181-201.

Kay, Joanne, & Laberge, Suzanne. (2002). Mapping the field of "AR" : Adventure Racing and Bourdieus concept of field. *Sociology of Sport Journal, 19*, 25-46.

Khan, Javed Ahmed, & Nisar, Shariq. (2004). Collateral (Al-Rahm) as practiced by Muslims Funds of North India. *Islamic economics, 17*(1), 17-34.

Krug, Barbara. (2002). The emergence and development of the private business sector in China : the case of Shanxi. *Management International Review, 42*(1/Special issue), 135-153.

Lapenu, Cécile. (2001). Case studies in microfinance : discussion/technical paper - Indonesia' rural financial system : the role of the state and private institutions. Washington: The World Bank.

Leblelici, Huseyin, Salancik, Gerald R., Copay, Anne, & King, Tom. (1991). Institutional change and the transformation of interorganizational fields : an organizational history of the US radio broadcasting industry. *Administrative Science Quarterly, 26*(3 (September)), 333-363.

McLeod, Ross H. (2007). Control and competition : banking deregulation and re-regulation in Indonesia. *Journal of the Asia Pacific Economy, 4*(2), 258-297.

Mirakhor, Abbas, & Zaidi, Iqbal. (2007). Profit-and-loss sharing contract in Islamic finance. In K. Hassan & M. Lewis (Eds.), *Handbook of Islamic Banking* (pp. 49-63). Cheltenham.

Muftie, Aries (2012). [Interview with the chairman of ABSINDO].

Mughal, Muhammad Zubair. (2015). A big question mark on Islamic finance industry. Retrieved 30 May, 2016, from http://www.alhudacibe.com/imhd/news14.php

Omori, Sawa. (2007). *Origins of financial reforms in developing countries.* (Doctoral), University Pittsburgh, Pittsburgh.

Perhimpunan BMT Indonesia. (2010). *Haluan BMT 2020*. Jakarta: Perhimpunan BMT Indonesia.

Perhimpunan BMT Indonesia. (2012). *Bangga berkoperasi, bangga bersyariah.* Paper presented at the BMT Summit, Yogyakarta.

Porta, Donatella Della, & Diani, Mario. (2006). *Social movements : an introduction. Second Edition*. Oxford: Blackwell Publishing.

Purde, David EJ, & Howe, P. David. (2015). Plotting a paralympic field : an elite disability sport competition viewed through Boudieu's sociological lens. *International Review for the Sociology of Sport, 50*(1), 83-97.

Resosudarmo, Budi P., & Kuncoro, Ari. (2006). The political economy of Indonesian economic reforms : 1983-2000. *Oxford Development Studies, 34*(3), 341-355.

Rhea, Marti J. (1996). The emergence of an advertising industry in Romania *Journal of Euro-Marketing, 5*(2), 53-76.

Robinson, Marguerita S. (1992). *Rural financial intermediation : lessons from Indonesia, part one the Bank Rakyat Indonesia : rural banking 1970-1991*. Development Discussion Paper. Harvard Institute for International Development Cambridge, Massachusetts.

Robinson, Marguerita S. (2002). *The microfinance revolution volume 2 : lessons from Indonesia* (Vol. 2). New York: The World Bank.

Robinson, Richard, & Rosser, Andrew. (1998). Contesting reform : Indonesia's new order and the IMF. *World Development, 26*(8), 1593-1609.

Rowlinson, Michael. (2005). Historical research method. In R. A. Swanson & E. F. H. III (Eds.), *Foundation and methods of inquiry*. San Fransisco: Berret-Koehler Publisher, Inc.

Sadeq, AbulHasan M. (2002). Waqf, perpetual charity and poverty alleviation. *International journal of social economics, 29*(1), 135-151.

Sakai, Minako. (2008). Community development through Islamic microfinance : serving the financial needs of the poor in viable way. In G. Fealy & S. White (Eds.), *Expressing*

Islam : religious life and politics in Indonesia (pp. 267-286). Singapore: Institute of Southeast Asian Studies - ISEAS Publishing.

Seibel, Hans Dieter. (2004). *Islamic microfinance : the challenge of institutional diversity*. Paper presented at the Symposium on Islamic Micro Finance, Harvard Law School.

Seibel, Hans Dieter. (2005). *Does history matter? The old and the new world of microfinance in Europe and Asia*. Paper presented at the From moneylenders to microfinance : Southeast Asia's credit revolution in institutional, economic and cultural perspective - an interdisciplinary workshop, Singapore.

Seibel, Hans Dieter, & Agung, Wahyu Dwi. (2005). *Islamic microfinance in Indonesia*. Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH.

Steinwand, Dirk. (2001). *The alchemy of microfinance : the evolution of the Indonesian People's Credit Bank (BPR) from 1895 to 1999 and a contemporary analysis*. Berlin: Verlag for Wissenschaft und Forshung GmBH.

Swartz, David L. (1997). *Culture and power : the sociology of Pierre Bourdieu*. London: The University of Chicago Press.

Tamara, M. Nasir. (1986). *Indonesia in the wake of Islam : 1965-1985*. Kuala Lumpur: Institute of Strategic and International Studies (ISIS) Malaysia.

Thomson, Patricia. (2008). Field. In M. Grenfell (Ed.), *Pierre Bourdieu : key concepts* (pp. 67-81). Durham: Acumen Publishing Limited.

Warde, Ibrahim. (2000). *Islamic finance in the global economy*. Edinburgh: Edinburgh University Press.

Washington, Marvin. (2004). Field approaches to institutional change : the evolution of the National Collegiate Athletic Association 1906-1995. *Organization Studies*, *25*(3), 393-414.

Weiss, John, & Montgomery, Heather. (2005). Great expectations : microfinance and poverty reduction in Asia and Latin America. *Oxford Development Studies, 33*(3&4, September-December), 391-416.

Worren, Nicolay A.M., Ruddle, Keith, & Moore, Karl. (1999). From organizational development to change management : the emergence of a new profession. *The Journal of Applied Behavioral Science, Sept, 35*(3), 273-286.

Xu, Yin, & Xu, Xiaoqun. (2008). Social actors, cultural capital, and the state : the standardization of bank accounting classification and terminology in early twentieth-century China. *Accounting, organizations and society, 33*, 73-102.